



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

King County Water District No. 111

For the period January 1, 2013 through December 31, 2013

Published December 31, 2014

Report No. 1013364





Washington State Auditor Troy Kelley

December 31, 2014

Board of Commissioners
King County Water District No. 111
Kent, Washington

Report on Financial Statements

Please find attached our report on King County Water District No. 111's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	4
Independent Auditor's Report On Financial Statements	6
Financial Section.....	9
About The State Auditor's Office.....	38

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**King County Water District No. 111
January 1, 2013 through December 31, 2013**

Board of Commissioners
King County Water District No. 111
Kent, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of King County Water District No. 111, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

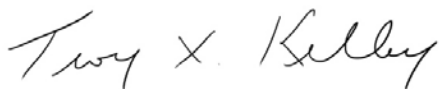
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 17, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Water District No. 111 January 1, 2013 through December 31, 2013

Board of Commissioners
King County Water District No. 111
Kent, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Water District No. 111, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on pages 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Water District No. 111, as of December 31, 2013 and 2012, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

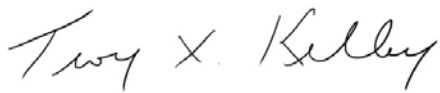
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 17, 2014

FINANCIAL SECTION

King County Water District No. 111 January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012

Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012

Statement of Cash Flows – 2013 and 2012

Notes to Financial Statements – 2013 and 2012

Water District No. 111 of King County
Management's Discussion and Analysis
Years Ended December 31, 2013 and 2012

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses & Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the years ended December 31, 2013 and 2012. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snap shot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Condensed Comparative Statement of Net Position

The following condensed statements of net position present the assets of the District and show the mix of liabilities and net assets used to acquire these assets:

	<u>2013</u>	Restated <u>2012</u>	<u>2011</u>
<u>Assets</u>			
Current Assets	\$ 7,578,526	\$ 7,503,570	\$ 7,282,519
Noncurrent Assets:			
Capital Assets - Net	25,481,358	25,809,533	26,194,881
Other	<u>27,368</u>	<u>35,313</u>	<u>59,869</u>
Total Assets	<u>\$ 33,087,252</u>	<u>\$ 33,348,416</u>	<u>\$ 33,537,269</u>
<u>Deferred Outflows of Resources</u>	<u>\$ 30,007</u>	<u>\$ 36,768</u>	<u>\$ -</u>

Water District No. 111 of King County
Management's Discussion and Analysis
Years Ended December 31, 2013 and 2012

Liabilities

Current Liabilities	\$ 839,911	\$ 810,377	\$ 1,127,287
Noncurrent Liabilities:			
Long-Term Debt	4,597,182	5,274,369	5,800,327
Other	<u>26,738</u>	<u>26,646</u>	<u>27,270</u>
Total Liabilities	<u>\$ 5,463,831</u>	<u>\$ 6,111,392</u>	<u>\$ 6,954,884</u>

Net Position

Net Investment in Capital Assets	\$ 20,236,996	\$ 19,902,888	\$ 19,610,103
Restricted for Debt Service	1,093,813	1,087,958	1,371,038
Restricted for Capital Projects	-	-	117
Unrestricted	<u>6,322,619</u>	<u>6,282,946</u>	<u>5,601,127</u>
Total Net Position	<u>\$ 27,653,428</u>	<u>\$ 27,273,792</u>	<u>\$ 26,582,385</u>

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets consist of cash and cash equivalents held in the maintenance, construction and revenue bond funds as well as inventory, prepaid expenses, accrued interest and accounts receivable. Current assets increased by \$74,956 in 2013 largely due to increases in the maintenance fund and revenue bond fund cash and cash equivalents held by the King County Investment Pool. Current assets increased by \$221,051 in 2012 largely due to increases in the maintenance fund and construction fund cash and cash equivalents held by the King County Investment Pool. Cash balances in the various funds vary from year to year based on the income from operations, expenses paid for operations and construction costs, transfers into other funds, borrowings and debt service payments.

Noncurrent assets include net capital assets, which include land, construction work in progress, utility plant, equipment and intangible assets, less accumulated depreciation. Net capital assets decreased by \$328,175 in 2013 primarily due to depreciation partially offset by capital spending. Net capital assets decreased by \$385,348 in 2012 primarily due to depreciation partially offset by capital spending. Other noncurrent assets include U.L.I.D. assessments receivable. These balances decreased in 2013 and 2012 due to collections on assessments receivable.

Liabilities

Current liabilities include accounts payable, deposits, accrued interest payable on debt, and the current portion of long-term debt. Current liabilities increased by \$29,534 in 2013 primarily due to an increase in the current portion of revenue bonds outstanding along with an increase in accounts payable. Current liabilities decreased by \$316,910 in 2012 primarily due to a decrease in the current portion of revenue bonds outstanding.

Water District No. 111 of King County
Management's Discussion and Analysis
Years Ended December 31, 2013 and 2012

Noncurrent liabilities include compensated absences and the long-term portion of Public Works Trust Fund loans, revenue bonds outstanding, and water agreements. Noncurrent liabilities decreased by \$677,095 in 2013 primarily due to the required payments of bond and loan principal made during the year. Noncurrent liabilities decreased by \$526,582 in 2012 primarily due to the required payments of bond and loan principal made during the year.

Net Position

Net position consists of total assets minus total liabilities. Net position increased by \$379,636 in 2013. Net position increased by \$796,747 in 2012. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial growth. An increase in net position in 2013 and 2012 is a positive sign of the District's financial strength.

Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

The following statements of revenues, expenses and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

	<u>2013</u>	Restated <u>2012</u>	<u>2011</u>
<u>Revenues</u>			
Water Sales	\$ 3,302,496	\$ 3,146,124	\$ 2,983,058
Other Operating Revenue	81,953	108,338	106,589
Nonoperating Revenues	<u>33,066</u>	<u>100,035</u>	<u>184,958</u>
Total Revenues	<u>\$ 3,417,515</u>	<u>\$ 3,354,497</u>	<u>\$ 3,274,605</u>
<u>Expenses</u>			
Operating Expenses	\$ 2,236,306	\$ 2,261,811	\$ 2,147,612
Depreciation and Amortization	1,254,327	1,232,786	1,265,194
Nonoperating Expenses	<u>132,010</u>	<u>162,398</u>	<u>188,284</u>
Total Expenses	<u>\$ 3,622,643</u>	<u>\$ 3,656,995</u>	<u>\$ 3,601,090</u>
Change in Net Position before Capital Contributions	\$ (205,128)	\$ (302,498)	\$ (326,485)
Capital Contributions	<u>584,764</u>	<u>1,099,245</u>	<u>327,950</u>
Change in Net Position	\$ 379,636	\$ 796,747	\$ 1,465
<u>Total Net Position, January 1</u>	27,273,792	26,582,385	26,580,920
<u>Change in Application of Accounting Principle</u>	<u>-</u>	<u>(105,340)</u>	<u>-</u>
<u>Total Net Position, December 31</u>	<u>\$ 27,653,428</u>	<u>\$ 27,273,792</u>	<u>\$ 26,582,385</u>

Water District No. 111 of King County
Management's Discussion and Analysis
Years Ended December 31, 2013 and 2012

Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

Revenues

Water sales increased by \$156,372 in 2013 due to a 3% rate increase effective April 1, 2013. Water sales increased by \$163,066 in 2012 due to a 3% rate increase effective April 1, 2012 partially offset by a decrease in consumption by District customers.

Nonoperating revenues decreased by \$66,969 in 2013 primarily due to lower interest income from investments. Interest income varies from year to year due to the average balances being invested and changes in interest rates. Nonoperating revenues decreased by \$84,923 in 2012 primarily due to the gain on the sale of a water main to the City of Auburn in 2011 that did not occur in 2012. This was offset by an increase in interest income due to a decrease in losses from impaired investments in the King County Investment Pool. The average balance being invested varies by fund from year to year and can result in differences in the interest collected by the District.

Expenses

Operating expenses decreased by \$25,505 in 2013 due to a decrease in the cost of purchased water, professional fees, and maintenance costs, partially offset by an increase in wages, payroll taxes and benefits, well hydrographic testing, excise taxes and election expenses. Operating expenses increased by \$114,199 in 2012 due to an increase in the cost of purchased water and an increase in field and office salaries, partially offset by a decrease in maintenance costs.

Nonoperating expenses consist of interest expense on long-term debt, as well as losses on capital assets dispositions. Interest expense decreased by \$19,947 in 2013 and decreased by \$37,796 in 2012. In 2013 and 2012 total outstanding debt decreased due to principal payments.

Capital Contributions

Capital contributions decreased by \$514,481 in 2013 primarily due to a 2012 grant of \$510,000 from Delta Dental to build a fluoride station. Capital contributions increased by \$771,295 in 2012 primarily due to a grant of \$510,000 from Delta Dental to build a fluoride station, as well as an increase in capital facilities charges.

Change in Net Position

Net position increased by \$379,636 in 2013 and increased by \$796,747 in 2012, reflecting the fact that total revenues exceeded total expenses.

Analysis of Overall Financial Condition

The District's overall financial condition remained strong in 2013 and 2012, with increases in net position, adequate liquid assets and positive operating cash flow.

In order to ensure that the District's financial condition remains strong, rate increases were enacted effective April 1, 2013 and April 1, 2012. There will be another 3% rate increase effective June 1, 2014.

Water District No. 111 of King County
Management's Discussion and Analysis
Years Ended December 31, 2013 and 2012

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment. The net capital assets of the District, after recording depreciation, decreased by \$328,175 in 2013. Capital spending in 2013 consisted of various projects, including the 282nd Main & Res Air Gap project, the Fluoride Station project, and sanitary system upgrades. Donated systems (infrastructure donated by developers) in the amount of \$344,882 are included in the 2013 change in net capital assets.

The net capital assets of the District, after recording depreciation, decreased by \$385,348 in 2012. Capital spending in 2012 consisted of various projects, including the Tacoma Intertie project, Well 6 Loop Connections and the Fluoride Station project. Donated systems (infrastructure donated by developers) in the amount of \$79,300 are included in the 2012 change in net capital assets.

Over the next five years it is anticipated that capital spending will be in the range of \$1,148,000. The areas of major emphasis in the capital budget include the following projects: Comprehensive Plan, CFC/Rate Study, fall protection on tanks, and well upgrades.

Capital assets activity for the year ended December 31, 2013 was as follows:

	Balance <u>12/31/13</u>	Balance <u>12/31/12</u>	Change
Land	\$ 206,459	\$ 206,459	\$ -
Construction in Progress	449,745	1,123,068	(673,323)
Utility Plant	35,910,647	34,911,388	999,259
Equipment	2,141,518	2,065,993	75,525
Intangibles	4,844,980	4,340,915	504,065
Non-Utility	69,200	69,200	-
Accumulated Depreciation	<u>(18,141,191)</u>	<u>(16,907,490)</u>	<u>(1,233,701)</u>
Total Capital Assets, Net	<u>\$ 25,481,358</u>	<u>\$ 25,809,533</u>	<u>\$ (328,175)</u>

Capital assets activity for the year ended December 31, 2012 was as follows:

	Balance <u>12/31/12</u>	Balance <u>12/31/11</u>	Change
Land	\$ 206,459	\$ 206,459	\$ -
Construction in Progress	1,123,068	644,810	478,258
Utility Plant	34,911,388	34,676,993	234,395
Equipment	2,065,993	2,079,788	(13,795)
Intangibles	4,340,915	4,419,913	(78,998)
Non-Utility	69,200	69,200	-
Accumulated Depreciation	<u>(16,907,490)</u>	<u>(15,902,282)</u>	<u>(1,005,208)</u>
Total Capital Assets, Net	<u>\$ 25,809,533</u>	<u>\$ 26,194,881</u>	<u>\$ (385,348)</u>

See Note 3 for more information regarding capital assets.

Long-Term Debt

At December 31, 2013, the District had total Public Works Trust Fund loans outstanding of \$1,729,817, total revenue bonds outstanding of \$3,263,194, and principal due on a water agreement with Soos Creek Water & Sewer District in the amount of \$252,332. The total long-term debt of the District decreased by \$677,187 during 2013 due to principal payments made on long-term debt. No new borrowings were made, and principal payments in the amount of \$669,044 were made on revenue bonds, Public Works Trust Fund loans and the water agreement with Soos Creek Water & Sewer District. This was offset by the decrease in the current portion of long-term debt.

At December 31, 2012, the District had total Public Works Trust Fund loans outstanding of \$2,053,338, total revenue bonds outstanding of \$3,573,081, and principal due on a water agreement with Soos Creek Water & Sewer District in the amount of \$283,874. The total long-term debt of the District decreased by \$525,958 during 2012 due to principal payments made on long-term debt. No new borrowings were made, and principal payments in the amount of \$1,006,199 were made on revenue bonds, Public Works Trust Fund loans and the water agreement with Soos Creek Water & Sewer District. This was offset by the decrease in the current portion of long-term debt.

See Note 5 for more information regarding long-term debt.

Additional Comments

A 3% rate increase was implemented effective June 1, 2014.

Water District No. 111 of King County
Statement of Net Position
December 31, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash & Cash Equivalents	\$ 5,820,262	\$ 5,767,931
Accrued Interest Receivable	2,286	2,574
Receivables: (Net)		
Accounts Receivable - Customers	53,290	63,151
Accounts Receivable - Other	10,438	25,689
Accrued Utility Revenue	492,027	454,550
Restricted Assets:		
Cash & Cash Equivalents	1,074,913	1,061,784
Accrued Interest Receivable	447	508
Inventories	79,513	85,716
Prepayments	<u>45,350</u>	<u>41,667</u>
Total Current Assets	<u>\$ 7,578,526</u>	<u>\$ 7,503,570</u>
<u>Noncurrent Assets</u>		
Restricted Assets:		
U.L.I.D. Assessments Receivable	<u>\$ 27,368</u>	<u>\$ 35,313</u>
Capital Assets Not Being Depreciated:		
Land	206,459	206,459
Construction in Progress	449,745	1,123,068
Capital Assets Being Depreciated:		
Plant	35,910,647	34,911,388
Machinery & Equipment	2,141,518	2,065,993
Intangibles	4,844,980	4,340,915
Non-Utility	69,200	69,200
Less Accumulated Depreciation	<u>(18,141,191)</u>	<u>(16,907,490)</u>
Total Capital Assets	<u>25,481,358</u>	<u>25,809,533</u>
Total Noncurrent Assets	<u>\$ 25,508,726</u>	<u>\$ 25,844,846</u>
Total Assets	<u>\$ 33,087,252</u>	<u>\$ 33,348,416</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Loss on Refunding	<u>\$ 30,007</u>	<u>\$ 36,768</u>
Total Deferred Outflows of Resources	<u>\$ 30,007</u>	<u>\$ 36,768</u>

See accompanying notes and accountant's report.

Water District No. 111 of King County
Statement of Net Position
December 31, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 108,522	\$ 72,941
Public Works Trust Fund Loans (Current Portion)	323,521	323,521
Accrued Interest - Public Works Trust Fund Loans	6,655	8,107
Water Agreement (Current Portion)	31,542	31,542
Accrued Interest - Water Agreement	631	710
Contractor's Retainage	28,663	35,119
Due to Developers	8,838	12,189
Customer Deposits	500	2,620
Payable from Restricted Assets:		
Revenue Bonds Outstanding, Net of Unamortized		
Bond Premium (Current Portion)	322,124	313,981
Bond Interest Payable	<u>8,915</u>	<u>9,647</u>
Total Current Liabilities	<u>\$ 839,911</u>	<u>\$ 810,377</u>
<u>Noncurrent Liabilities</u>		
Public Works Trust Fund Loans		
(Less Current Portion)	\$ 1,406,296	\$ 1,729,817
Water Agreement (Less Current Portion)	220,790	252,332
Compensated Absences	26,738	26,646
Payable from Restricted Assets:		
Revenue Bonds Outstanding, Net of Unamortized		
Bond Premium (Less Current Portion)	<u>2,970,096</u>	<u>3,292,220</u>
Total Noncurrent Liabilities	<u>\$ 4,623,920</u>	<u>\$ 5,301,015</u>
Total Liabilities	<u>\$ 5,463,831</u>	<u>\$ 6,111,392</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	\$ 20,236,996	\$ 19,902,888
Restricted for Debt Service	1,093,813	1,087,958
Unrestricted	<u>6,322,619</u>	<u>6,282,946</u>
Total Net Position	<u>\$ 27,653,428</u>	<u>\$ 27,273,792</u>

See accompanying notes and accountant's report.

Water District No. 111 of King County
Statement of Revenues, Expenses, and Changes in Fund Net Position
Years Ended December 31, 2013 and 2012

	<u>2013</u>	Restated <u>2012</u>
<u>Operating Revenues</u>		
Metered Water Sales and Street Light Revenues	\$ 3,140,938	\$ 2,990,043
Irrigation Water Sales	161,505	155,790
Outside Water Sales	53	291
Penalties	75,517	71,545
Miscellaneous Revenue	<u>6,436</u>	<u>36,793</u>
Total Operating Revenues	<u>\$ 3,384,449</u>	<u>\$ 3,254,462</u>
<u>Operating Expenses</u>		
Maintenance & Operations (Schedule)	\$ 1,200,401	\$ 1,268,204
Administrative & General (Schedule)	1,035,905	993,607
Depreciation & Amortization	<u>1,254,327</u>	<u>1,232,786</u>
Total Operating Expenses	<u>\$ 3,490,633</u>	<u>\$ 3,494,597</u>
Operating Income (Loss)	<u>\$ (106,184)</u>	<u>\$ (240,135)</u>
<u>Nonoperating Revenues (Expenses)</u>		
Interest on Investments	\$ 22,266	\$ 89,235
Rental House Income	10,800	10,800
Rental House Expense	(2,598)	(1,444)
Bond Interest Expense	(113,309)	(130,197)
Gain/Loss on Disposition of Assets	-	(11,595)
Interest on Public Works Trust Fund Loans	(14,762)	(17,664)
Interest on Water Agreements	<u>(1,341)</u>	<u>(1,498)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (98,944)</u>	<u>\$ (62,363)</u>
Income (Loss) Before Contributions	\$ (205,128)	\$ (302,498)
Capital Contributions	<u>584,764</u>	<u>1,099,245</u>
Change in Net Position	\$ 379,636	\$ 796,747
<u>Total Net Position - January 1</u>	27,273,792	26,582,385
<u>Change in Application of Accounting Principle</u>	<u>-</u>	<u>(105,340)</u>
<u>Total Net Position - December 31</u>	<u>\$ 27,653,428</u>	<u>\$ 27,273,792</u>

See accompanying notes and accountant's report.

Water District No. 111 of King County
Statement of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	Restated <u>2012</u>
<u>Cash Flows From Operating Activities</u>		
Cash Received From Customers	\$ 3,356,833	\$ 3,239,891
Cash Paid to Suppliers	(1,136,457)	(1,214,141)
Cash Paid to Employees	(1,064,462)	(1,035,670)
Cash Received From Rental House	10,800	10,800
Cash Paid On Rental House	<u>(2,598)</u>	<u>(1,444)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,164,116</u>	<u>\$ 999,436</u>
<u>Cash Flows From Capital & Related Financing Activities</u>		
Acquisition & Construction of Capital Assets	\$ (569,669)	\$ (753,968)
Capital Contributions	242,356	1,048,501
Principal Payments on Revenue Bonds	(309,887)	(651,137)
Principal Payments on Public Works Trust Fund Loans	(323,521)	(323,521)
Principal Payments on Water Agreements	(31,542)	(31,541)
Interest Paid on Revenue Bonds & Public Works Trust Fund Loans	(127,588)	(149,424)
Interest Paid on Water Agreements	<u>(1,420)</u>	<u>(1,577)</u>
Net Cash (Used) by Capital & Related Financing Activities	<u>\$ (1,121,271)</u>	<u>\$ (862,667)</u>
<u>Cash Flows From Investing Activities</u>		
Interest Received on Investments	<u>\$ 22,615</u>	<u>\$ 89,116</u>
Net Cash Provided by Investing Activities	<u>\$ 22,615</u>	<u>\$ 89,116</u>
Net Increase (Decrease) in Cash & Cash Equivalents	\$ 65,460	\$ 225,885
<u>Cash & Cash Equivalents - January 1</u>	<u>6,829,715</u>	<u>6,603,830</u>
<u>Cash & Cash Equivalents - December 31</u>	<u>\$ 6,895,175</u>	<u>\$ 6,829,715</u>
<u>Noncash Investing, Capital and Financing Activities</u>		
Contributions of Capital Assets from Developers	\$ 344,882	\$ 79,300
Book Value of Plant Removals	<u>\$ -</u>	<u>\$ 11,595</u>

See accompanying notes and accountant's report.

Water District No. 111 of King County
Statement of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	Restated <u>2012</u>
<u>Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities</u>		
Operating Income (Loss)	\$ (106,184)	\$ (240,135)
<u>Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities</u>		
Depreciation & Amortization	\$ 1,254,327	\$ 1,232,786
Rental House Income (Net of Expenses)	8,202	9,356
<u>Change in Assets & Liabilities</u>		
(Increase) Decrease in Accounts Receivable	9,861	765
(Increase) Decrease in Inventories	6,203	276
(Increase) Decrease in Prepayments	(3,683)	(319)
(Increase) Decrease in Accrued Utility Revenue	(37,477)	(15,336)
Increase (Decrease) in Accounts Payable - Maintenance	32,775	12,667
Increase (Decrease) in Compensated Absences	<u>92</u>	<u>(624)</u>
Total Adjustments	\$ <u>1,270,300</u>	\$ <u>1,239,571</u>
Net Cash Provided by Operating Activities	\$ <u>1,164,116</u>	\$ <u>999,436</u>

See accompanying notes and accountant's report.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Water District No. 111 of King County conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District:

a. Reporting Entity

Water District No. 111 of King County is a municipal corporation governed by an elected, three member board. The District's primary activity is to provide water services to residential and commercial customers within the District's boundaries. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year end.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and related services. Operating expenses pertain to the furnishing of those services which include the cost of sales and services, administration expenses and depreciation expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the contract price. Provision for depreciation is computed on the straight-line method with the following useful lives: Plant, 3 - 50 years; Equipment, 2 - 50 years; Intangibles, 3 - 100 years; Non-Utility, 10 - 30 years. Upon retirement, sale, or other disposition of an asset, the cost of the assets and the related accumulated depreciation are removed from the property accounts and the net gain or loss is reflected in the statement of revenues, expenses and changes in net assets.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects which are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed.

See Note 3.

e. Restricted Funds

In accordance with bond resolutions and Public Works Trust Fund loan agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction and debt service requirements.

Restricted funds currently include the following:

	<u>12/31/13</u>	<u>12/31/12</u>
Revenue Bond Fund	\$ 284,827	\$ 275,669
Bond Reserve Funds	790,086	786,115

Assets and liabilities shown as current in the accompanying statement of net position exclude current maturities on defeased revenue bonds and accrued interest thereon because debt service funds have been set aside for their payment.

f. Receivables

Receivables consist primarily of amounts due from water customers. There may also be amounts due from developers and other districts and municipalities. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has the power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Inventories

Inventory of materials is recorded at cost on the first in first out basis. A physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at market value. See Note 2.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay accumulated by an employee is payable upon termination of employment. Employees can carry over a maximum of 10 days of vacation pay from one year to the next, except during the employee's last year of service before retirement at which time the employee can carry over 15 days into the last year of employment. Sick leave may accumulate up to 180 days. Upon termination, only sick leave earned in the current year is payable to the employee.

j. Subsequent Events

Management has evaluated subsequent events through May 29, 2014, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS & INVESTMENTS

The District's cash and investment balances at December 31, 2013 and 2012 are listed below.

	<u>2013</u>	<u>2012</u>
Petty Cash Fund	\$ 500	\$ 500
Bank Deposit Accounts	8,534	9,780
Investment in King County Investment Pool	<u>6,886,141</u>	<u>6,819,435</u>
Total Cash & Investments	<u>\$ 6,895,175</u>	<u>\$ 6,829,715</u>

The District's deposits in bank accounts are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

In accordance with state investment laws, the District's governing body has entered into a formal Interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of December 31, 2013, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 6,886,141	1.23 Years

Impaired Investments. As of December 31, 2013, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is \$31,316, and the District's fair value of these investments is \$18,549.

Interest Rate Risk. As of December 31, 2013, the Pool's average duration was 1.23 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2013, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 206,459	\$ -	\$ -	\$ 206,459
Construction in Progress	<u>1,123,068</u>	<u>494,389</u>	<u>(1,167,712)</u>	<u>449,745</u>
<u>Total capital assets not being depreciated</u>	<u>1,329,527</u>	<u>494,389</u>	<u>(1,167,712)</u>	<u>656,204</u>
Capital assets being depreciated:				
Plant	34,911,388	1,009,734	(10,475)	35,910,647
Equipment	2,065,993	85,676	(10,151)	2,141,518
Intangibles	4,340,915	504,065	-	4,844,980
Non-Utility	<u>69,200</u>	<u>-</u>	<u>-</u>	<u>69,200</u>
<u>Total capital assets being depreciated</u>	<u>41,387,496</u>	<u>1,599,475</u>	<u>(20,626)</u>	<u>42,966,345</u>
<u>Less accumulated depreciation</u>	<u>16,907,490</u>	<u>1,254,327</u>	<u>(20,626)</u>	<u>18,141,191</u>
<u>Total capital assets being depreciated, net</u>	<u>24,480,006</u>	<u>345,148</u>	<u>-</u>	<u>24,825,154</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 25,809,533</u>	<u>\$ 839,537</u>	<u>\$ (1,167,712)</u>	<u>\$ 25,481,358</u>

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 3 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 206,459	\$ -	\$ -	\$ 206,459
Construction in Progress	<u>644,810</u>	<u>599,848</u>	<u>(121,590)</u>	<u>1,123,068</u>
<u>Total capital assets not being depreciated</u>	<u>851,269</u>	<u>599,848</u>	<u>(121,590)</u>	<u>1,329,527</u>
Capital assets being depreciated:				
Plant	34,676,993	267,066	(32,671)	34,911,388
Equipment	2,079,788	113,707	(127,502)	2,065,993
Intangibles	4,419,913	-	(78,998)	4,340,915
Non-Utility	<u>69,200</u>	<u>-</u>	<u>-</u>	<u>69,200</u>
<u>Total capital assets being depreciated</u>	<u>41,245,894</u>	<u>380,773</u>	<u>(239,171)</u>	<u>41,387,496</u>
<u>Less accumulated depreciation</u>	<u>15,902,282</u>	<u>1,235,149</u>	<u>(229,941)</u>	<u>16,907,490</u>
<u>Total capital assets being depreciated, net</u>	<u>25,343,612</u>	<u>(854,376)</u>	<u>(9,230)</u>	<u>24,480,006</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 26,194,881</u>	<u>\$ (254,528)</u>	<u>\$ (130,820)</u>	<u>\$ 25,809,533</u>

The District capitalizes the interest cost during the construction period of its utility plant if the construction period exceeds one year. In 2013 and 2012, no interest costs were capitalized as construction period interest. The District also capitalizes employee wage and benefit costs in connection with construction of utility plant assets.

The practice of the District is to use a capitalization threshold of \$1,000.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$646,500. Of the committed balance of \$196,755, the District will not be required to incur any future financing.

	<u>Project Authorization</u>	<u>Expended to 12/31/13</u>	<u>Committed</u>	<u>Required Future Financing</u>
Rate Studies	\$ 50,000	\$ 1,638	\$ 48,362	\$ -
Hazardous Mitigation	41,500	31,413	10,087	-
District Annexation	75,000	61,860	13,140	-
282 nd Main & Res Air Gap	<u>480,000</u>	<u>354,834</u>	<u>125,166</u>	<u>-</u>
	<u>\$ 646,500</u>	<u>\$ 449,745</u>	<u>\$ 196,755</u>	<u>\$ -</u>

NOTE 5 - LONG-TERM DEBT

a. Revenue Bonds

A summary of bonds outstanding at December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
2010 Revenue Bonds, 3.000 - 4.625%, maturing serially through 2030		
Original debt: \$3,210,000	\$ 1,585,000	\$ 1,735,000
2011 Revenue Bonds, 2.680%, maturing serially through 2022		
Original debt: \$1,849,218	<u>1,678,194</u>	<u>1,838,081</u>
	\$ 3,263,194	\$ 3,573,081
Unamortized Bond Premium	<u>29,026</u>	<u>33,120</u>
	<u>\$ 3,292,220</u>	<u>\$ 3,606,201</u>

Principal and interest on water revenue bonds are payable from and secured by a pledge of net operating revenues and collection of Utility Local Improvement District assessments, including interest thereon. Some of these bonds are callable for advance redemption, at the option of the board.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 5 - LONG-TERM DEBT (Continued)

a. Revenue Bonds (Continued)

The annual requirements to amortize all revenue bonds outstanding as of December 31, 2013, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 318,410	\$ 102,467	\$ 420,877
2015	326,660	93,327	419,987
2016	339,594	83,475	423,069
2017	342,191	73,007	415,198
2018	239,448	64,228	303,676
2019 - 2023	1,121,891	208,645	1,330,536
2024 - 2028	395,000	88,594	483,594
2029 - 2030	<u>180,000</u>	<u>8,325</u>	<u>188,325</u>
	<u>\$ 3,263,194</u>	<u>\$ 722,068</u>	<u>\$ 3,985,262</u>

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund Loans:

	<u>12/31/2013</u>	<u>12/31/2012</u>
1994 loan - payable at \$31,405 annually through the year 2014, plus interest at 1% per annum		
Original debt: \$589,750	\$ 31,405	\$ 62,809
1995 loan - payable at \$68,314 annually through the year 2015, plus interest at 1% per annum		
Original debt: \$1,290,800	136,629	204,943
1996 loan - payable at \$51,943 annually through the year 2016, plus interest at 1% per annum		
Original debt: \$945,000	155,830	207,773
1996 loan - payable at \$7,995 annually through the year 2016, plus interest at 1% per annum		
Original debt: \$151,900	23,984	31,979
1999 loan - payable at \$97,401 annually through the year 2019, plus interest at 1% per annum		
Original debt: \$1,850,613	584,404	681,804
2006 loan - payable at \$66,464 annually through the year 2025, plus interest at .5% per annum		
Original debt: \$1,255,427	<u>797,565</u>	<u>864,030</u>
	<u>\$ 1,729,817</u>	<u>\$ 2,053,338</u>

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 5 - LONG-TERM DEBT (Continued)

b. Public Works Trust Fund Loans (Continued)

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2013, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 323,521	\$ 13,311	\$ 336,832
2015	292,117	10,407	302,524
2016	223,803	7,819	231,622
2017	163,864	5,913	169,777
2018	163,864	4,607	168,471
2019 - 2023	429,720	9,282	439,002
2024 - 2025	<u>132,928</u>	<u>997</u>	<u>133,925</u>
	<u>\$ 1,729,817</u>	<u>\$ 52,336</u>	<u>\$ 1,782,153</u>

c. Other Long-Term Debt

The District entered into an interlocal cooperation agreement with Soos Creek Water and Sewer District for the purpose of providing joint planning, engineering, bidding and construction for the Meridiana sewer extension and water main replacement project. As part of this agreement Soos Creek Water and Sewer District entered into a loan agreement with the Public Works Trust Fund. Per the terms of the interlocal agreement, the District will make payments to Soos Creek Water and Sewer District for its share of the Public Works Trust Loan which has been determined to be 49.29 percent of the total loan.

	<u>2013</u>	<u>2012</u>
Soos Creek Agreement - payable at \$31,542		
annually through the year 2021, plus interest at		
0.5% per annum. Original debt: \$603,548	<u>\$ 252,332</u>	<u>\$ 283,874</u>

The following is the principal and interest due on these loans.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 31,542	\$ 1,262	\$ 32,804
2015	31,542	1,104	32,646
2016	31,542	946	32,488
2017	31,542	789	32,331
2018	31,542	631	32,173
2019 - 2021	<u>94,622</u>	<u>946</u>	<u>95,568</u>
	<u>\$ 252,332</u>	<u>\$ 5,678</u>	<u>\$ 258,010</u>

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 5 - LONG-TERM DEBT (Continued)

d. Changes in Long-Term Debt

During the year ended December 31, 2013, the following changes occurred in long-term debt:

	Balance <u>1/1/13</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/13</u>	Due Within <u>One Year</u>
Revenue Bonds					
Payable	\$ 3,573,081	\$ -	\$ (309,887)	\$ 3,263,194	\$ 318,410
Unamortized Bond					
Premium	33,120	-	(4,094)	29,026	3,714
Public Works Trust					
Fund Loans	2,053,338	-	(323,521)	1,729,817	323,521
Water Agreement	283,874	-	(31,542)	252,332	31,542
Compensated					
Absences	<u>26,646</u>	<u>92</u>	<u>-</u>	<u>26,738</u>	<u>-</u>
Total Long-Term					
Debt	<u>\$ 5,970,059</u>	<u>\$ 92</u>	<u>\$ (669,044)</u>	<u>\$ 5,301,107</u>	<u>\$ 677,187</u>

NOTE 6 - PENSION PLAN

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 6 - PENSION PLAN (Continued)

Plan Description (Continued)

are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 6 - PENSION PLAN (Continued)

Plan Description (Continued)

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 6 - PENSION PLAN (Continued)

Plan Description (Continued)

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 6 - PENSION PLAN (Continued)

Plan Description (Continued)

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan I are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 6 - PENSION PLAN (Continued)

Funding Policy (Continued)

member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21% **	9.21% **	9.21% ***
Employee	6.00% *****	4.92% *****	*****

*The employer rates include the employer administrative expense fee currently set at 0.18%.

**The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

***Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.5% for Plan 1 and 4.92% for Plan 2.

*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ 10,845	\$ 37,055	\$ 11,149
2012	\$ 9,285	\$ 31,257	\$ 9,798
2011	\$ 7,641	\$ 24,334	\$ 8,160

NOTE 7 - SUPPLEMENTAL RETIREMENT PLAN

The District has adopted a defined contribution money purchase plan, in lieu of participation in the federal Social Security system. The plan covers all full-time employees who have met certain service and minimum age requirements. Under the provisions of the plan, both the District and each participant make contributions to the plan equal to 6.2% of the participant's annual compensation. For 2013, the District and the plan participants each contributed \$45,188 to the plan. For 2012, the District and the plan participants each contributed \$43,852 to the plan.

NOTE 8 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Government Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss; \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contributions to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

Water District No. 111 of King County
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 8 - RISK MANAGEMENT (Continued)

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

During the past three years (2011 - 2013), the District did not have any settlements which exceeded insurance coverage.

NOTE 9 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 10 - CONTINGENT LIABILITIES

The District's financial statements include all material liabilities. There are no material contingent liabilities to record.

NOTE 11 - CHANGE IN APPLICATION OF ACCOUNTING PRINCIPLE

The District implemented GASB 65, Items Previously Reported as Assets and Liabilities. This standard states in part, "Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred."

This statement also states in part, "Accounting changes adopted to conform to the provisions of this statement should be applied retroactively by restating financial statements, if practical, for all periods presented." The District presents Comparative Financial Statements and appropriately applied the adjustments to the 2012 Financial Statements.

Implementation of the standard requires the District to restate the 2012 Financial Statements by reclassifying the 2002, 2010 and 2011 applicable unamortized bond issuance costs from an asset account to change in application of accounting principle in the amount of \$105,340 and a reduction of \$18,948 in 2012 amortization expense.

NOTE 12 - FINANCIAL STATEMENT PRESENTATION

Certain items in the 2012 financial statements have been reclassified to conform with current year presentation.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov